

## Lesson 4 – Adjustments

### *Tax Law Supplement: Educator expenses*

*(Insert on Page 4-1)*

#### **Introductions and Objectives**

As a result of tax law changes the Educator's Expense has been restored. This seventh adjustment to income should be covered as follows. It can be taken by qualifying taxpayers filing Form 1040A or Form 1040.

#### **Deduction for Educator Expenses**

If the taxpayer is an eligible educator, he or she can deduct as an adjustment to income up to \$250 in qualified expenses. The taxpayer can deduct these expenses even if he or she does not itemize deductions on Schedule A (Form 1040). This adjustment to income is for expenses paid or incurred in 2004. If both the taxpayer and spouse are eligible educators and choose to file a joint tax return, they may deduct up to \$500 (\$250 each) of qualified expenses. Prior to 2002 these expenses were deductible only as miscellaneous itemized deductions.

#### **Eligible educator**

The taxpayer is an eligible educator if, for the tax year, he or she is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide, and he or she works at least 900 hours during a school year in a school that provides elementary or secondary education as determined under state law.

#### **Qualified expenses**

Qualified expenses are the **unreimbursed expenses** paid or incurred for books, supplies, computer equipment (including related software and services), other equipment and supplementary materials that the taxpayer uses in his or her classroom. For courses in health and physical education, expenses for supplies are qualified expenses only if they are related to athletics. To be deductible as an adjustment to income, the qualified expenses must be more than the following amounts for the tax year:

- The interest on qualified U.S. savings bonds that the taxpayer excluded from income because he or she paid qualified higher education expenses.
- Any distributions from a qualified tuition program that the taxpayer excluded from income, or
- Any tax-free withdrawals by the taxpayer from a Coverdell education savings account.

The educator expense can be claimed on Form 1040, line 23 or Form 1040A, line 16.

#### **Example 1**

Joe and Mary will file a joint return for 2004. Joe is a high school math teacher and incurred \$500 in qualified unreimbursed expenses. Mary is a grade school principal and incurred \$200 in qualified unreimbursed expenses. Both Joe and Mary meet the definition of eligible educators. They will claim \$450 (\$250 for Joe and \$200 for Mary) on Form 1040, line 23.